

MATZIKAMA  
Municipality



Budget/Begroting  
2013/14 – 2015/16  
Medium Term Revenue and  
Expenditure Framework  
Medium Termyn Inkomste- en  
Uitgaweraamwerk

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## Glossary

**Adjustments budget** - Prescribed in Section 28 of the MFMA. The formal manner in which a municipality can revise its budget during the year.

**Budget** - The financial plan of the Municipality.

**Budget-related Policy** - Policy of a municipality affecting the budget or affected by the budget, such as the tariff policy, rates policy and credit control and debt collection policy.

**Capital expenditure** - Expenditure on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's balance sheet.

**Cash flow statement** - A statement showing when actual cash is to be received and spent by the Municipality. Cash payments do not always correspond with budgeted expenditure frameworks. For example, when an invoice is received by the Municipality, it is regarded as expenditure in the month; even it is not paid within the same period.

**DORA - Distribution of Revenue Act.** Annual legislation containing the total allocations by national government to provincial and local governments.

**Equitable share** - A general allocation paid to municipalities. It is mainly aimed at rendering assistance with free basic services.

**Fruitless and wasteful expenditure** - Expenditure done in vain and that could have been avoided if reasonable care was exercised.

**GFS - Government Finance Statistics.** An internationally recognised classification system making a type by type comparison between municipalities.

**Grants** - Money received from Provincial or National Government and other municipalities.

**GRAP - Generally Recognised Accounting Policy.** The new standard for municipal accounting.

**IDP - Integrated Development Plan.** The main strategic planning document of the Municipality.

**KPI's - Key Performance Indicators.** Measurement of service outputs and/or outputs.

**MFMA - The Municipal Financial Management Act - No. 53 of 2003.** The main legislation applicable to municipal financial management.

**MTREF** - Medium term Revenue and Expenditure Framework. A Medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budgetary allocations. Also includes details of the financial position of the preceding and current year.

**Nett Assets** -Nett assets are the residual interest in the assets of the entity after all its liabilities have been deducted. This means that the net assets of the municipality equal the "net welfare" of the municipality, after all assets had been sold/recovered and all liabilities had been paid. Transactions that do not fall under the description of Revenue or Expenditure, such as increase in the value of Property, Plant and Equipment, where no in- or outflow of resources occurs, are recorded under Nett Assets.

**Operational expenditure** - Expenditure on the day-to-day expenses of the Municipality, such as salaries and wages.

**Property rates** - Local authority rates based on the assessed value of a property. In order to calculate the rates payable, the assessed value is multiplied by the rate in the rand.

**SDBIP** - Service Delivery and Budget Implementation Plan. A detailed plan consisting of quarterly performance targets and monthly budget estimates.

**Strategic Objectives** - The main priorities of the Municipality as set out in the IDP. Budgeted expenditure must contribute to the achievement of the strategic objectives.

**Unauthorised expenditure** - In general, expenditure without, or in excess of an approved budget.

**Virement** - A budget transfer.

**Vote** - One of the main segments of a budget.

# PART 1 - ANNUAL BUDGET

## Section 1 - Mayoral Report

In terms of section 16 (2) of the Municipal Financial Management Act (Act 56 of 2003), it is my privilege to submit the 2011/2012 Medium term Revenue and Expenditure Framework (MTREF) to Council.

As this budget constitutes the proposed financial plan for the next 3 years, it impacts on the community as a whole and it is thus extremely important to consult the community with a view to accept joint ownership and joint responsibility for the welfare of the municipality's financial affairs. Consequently, a compulsory period of community liaison shall follow before the final approval of this budget before the end of May 2013. Inputs and representations shall be considered and the budget revised accordingly.

Council's strategic objectives of service delivery include the continuation of the acceptable level of services, as well as improvement in those areas still lacking. It remains a priority of the council to contain service delivery within the affordability levels of the community while focusing on the seven strategic focus areas that council wish to achieve over the next five years:

- Economic Development;
- Financial Stability;
- Good Governance & Municipal Transformation;
- Good, quality municipal basic services;
- Socially advanced communities
- Capacitated and informed communities;
- Sustainable natural and built environment.

Strategic objectives were developed for each focus area that are specifically linked to the multi-year budgets and is given effect to in the Service Delivery Budget Implementation Plan. The municipality has also ensured that there is a distinction between municipal functions and those from other spheres of government.

To achieve the above, a balancing act is required between the set objectives and available financial resources, while taking into consideration the effect of tariff adjustments on the community as a whole, and the poor in particular.

In addition, we have not escaped the downturn in the economy, which has had a considerable influence in Matzikama. The effect of rapidly rising costs in areas such as fuel and electricity and the subsequent ripple effect

on our expenditure, make the achievement of the service delivery objectives so much more difficult and a greater challenge. The challenge is further to achieve more with our existing resources and to increase our productivity level.

Provision has been made for celebration of various calendar events by the Council in the budget.

Taking all of the above into consideration, I submit to you the following estimated expenditure summarised as follows:

TYPE	2013/2014 (000)	2014/2015 (000)	2015/2016 (000)
Operating expenditure	212 653	223 041	235 080
Capital expenditure	59 253	53 937	39 075
<b>TOTAL</b>	<b>280 906</b>	<b>276 978</b>	<b>274 155</b>

In achieving the above, provision was made for the following:

- Salary increases as set out in the collective agreement.
- Annual increase in Councillor Remuneration.
- A proposed increase of 12% in Eskom's bulk purchase price for electricity.
- An increase of 12.8 in the bulk purchase price for water.
- Interest on capital costs to service the current external loans.
- Increase in the costs of subsidies to the increasing number of indigent households.
- Compulsory statutory provision for devaluation of assets and bad debt, and sufficient GRAP provision for post-employment medical contributions and long service awards.
- Capital expenditure emphasis on grant funded projects.

## Section 2 – Budget Related Resolutions

MTREF 2013/2014

The below-mentioned resolutions shall be approved by Council upon the final adoption of the budget:

### RESOLUTION:

1. That the annual operating budget of Matzikama Municipality for the 2013/2014 financial year; and indicative for the two projected years 2014/2015 and 2015/2016, as contained in the annexures in Section 4, be approved.
2. That the annual capital budget of Matzikama Municipality for the 2013/2014 financial year; and indicative for the two projected years 2014/2015 and 2015/2016, as contained in the annexures in Section 4, be approved.
3. That the supporting tables relating to the budget of Matzikama Municipality for the 2013/2014 financial year; and indicative for the two projected years 2014/2015 and 2015/2016, as contained in the annexures in Section 4, be approved.
4. Property rates indicated in Annexure A are approved for the 2013/2014 budget year.
5. Tariffs and levies indicated in Annexure A are approved for the 2013/2014 budget year.
6. Council notes and approves all budget related policies as set out in Section 8.

## Section 3 - Executive Summary

### Introduction

The annual budget and capital budget of Matzikama Municipality for the financial year 2013/2014 and the 2 indicative years 2014/2015 and 2015/2016 are hereby represented as prescribed in among others:

- MFMA (Act 56 of 2003)
- The Distribution of Revenue Act, 2011 and Provincial Budget announcements
- Budget & Reporting Regulations 393 of 2009
- Sections 215 & 216 of the Constitution
- The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act no 44 of 2003
- Councils budget related policies

### Effect of the annual budget

The projected estimates for the MTREF are as follows: (R '000)

#### OPERATING BUDGET

Type	2013/2014 (R '000)	2014/2015 (R '000)	2015/2016 (R '000)
Revenue	196 443	206 397	216 952
Expenditure	212 653	223 041	235 080
Capital transfers	52 213	33 151	31 280
Surplus	35 913	16 507	13 153



## CAPITAL BUDGET

Objective	2013/2014 (R '000)	2014/2015 (R '000)	2015/2016 (R '000)
Infrastructure assets	47 833	41 821	34 369
Community assets	7 644	4 785	2 900
Intangible assets	2 800		
Other Assets	976	7 332	1 807
<b>Total</b>	<b>59 253</b>	<b>53 937</b>	<b>39 075</b>

Infrastructure assets	2013/2014 (R '000)	2014/2015 (R '000)	2015/2016 (R '000)
Road Transport	8 009	15 500	0
Electricity	5 134	4 940	1 195
Water	755	589	11 364
Sanitation	29 460	15 781	21 810
Other	4 475	5 011	
<b>Total</b>	<b>47 833</b>	<b>41 821</b>	<b>34 369</b>

The projected funding of the capital budget is as follows: (R '000)

Source of funding	2013/2014 (R '000)	2014/2015 (R '000)	2015/2016 (R '000)
National Government	51 123	33 151	31280
External loans	8 130	20 786	7 795
<b>Total</b>	<b>59 253</b>	<b>53 937</b>	<b>39 075</b>

Tariff increases are inevitable to balance the budget as set out above and the proposed main average tariff adjustments as follows:

Property rates	12%
Refuse removal	15%
Sewage	15%
Water units	15%
Electricity units	12% - with NERSA approval
Other Diverse Tariffs	As per tariff listing

With numerous prevailing budget constraints with which the municipality is confronted with, it is of cardinal importance that absolute strict financial discipline and budget control have to be maintained during the next financial year in order to manage this marginalised budget.

By strict enforcement and execution of the credit control policy, together with an understanding of the prevailing economic climate, Council aims to maintain a rate of payment to meet Council's financial and constitutional obligations.

The priorities identified during the IDP process can only be funded within the financial means and the affordability levels of the community.

The Municipality's budget must be viewed in the context of the policy and financial priorities of the National, Provincial and district authorities. Basically, the government spheres are partners in fulfilling the service delivery challenges experienced in Matzikama. It is therefore essential that the other government spheres support the municipality by direct allocation of resources and subsidies to enable the municipality to maintain and achieve the long-term capital needs of the community.

The MTREF 2013/2014 budget is not cash backed as the municipality has been experiencing cash flow challenges for the last three years as indicated by the growth in working capital requirements since 2009/2010 (see table SA10, actual audited figures). Despite the best efforts of the municipality and Provincial Treasury to limit expenditure in order to ensure that cash position of the municipality could improve, no further cuts in expenditure could be made without affecting service delivery.

Mention was made during the interactions with Provincial Treasury that an increase in the tariffs should be considered by the municipality, but it was felt that the community will not be able to absorb any further increases. The community should however be prepared for above the inflation rate increases for a number of years until the municipality has improved its ability to render excellent services at a sustainable level.

### The National Context

South Africa has achieved considerable success in achieving macro-economic stability; but the economy is still struggling under the high levels of unemployment and poverty.

National Treasury annually issues a circular in which they inform municipalities on the budget parameters within which municipalities must work when drafting their budgets.

### CONCLUSION

Although the operating budget reflects a surplus of R 35.913 million it is of the utmost importance to take cognisance that it is a surplus realized due to the government grant capital transfer, which represent only a compulsory book entry and not money available for operating expenditure.

The capital grants income is to finance capital expenditure and it already forms part of the total capital expenditure finance resources.

The following proposals are being made, with the input and support of Provincial Treasury, to improve the overall cash flow position of the municipality:

### REVENUE ENHANCEMENTS:

- Sell all available erven and municipal properties
  - Consider selling beehives
  - Consider selling municipal houses
  - Consider selling erven, especially in Strandfontein and Vredendal-South
- Evaluate all vehicles regarding fuel usage and cost of repairs and maintenance and sell vehicles no longer running at a cost effective level. A full investigation should then be done to establish the minimum amount of vehicles that the municipality can function with and any replacements should be made via full maintenance lease agreements.
- Identify and sell all broken and redundant movable assets
- Councillors and staff must enter into written agreements with the municipality that all of their household accounts will be paid on or before the due date. Failure to adhere will immediately lead to the deduction of the monthly account via the Salary Offices.
- Traffic officials should be given measurable targets re number of fines to generate on a weekly basis.
- An ongoing programme must be put in place whereby households are checked for tampering of both electricity and water meters. No reconnection of the supply may take place before the fine is settled in full. Electricity supply must immediately be disconnected at source.

- The review of the various property usage deviations as contained in the Rates Act must be scrutinised to ensure that the income from the various industries are maximized.
- Utilise software to assist in identifying any unmetered properties through using layering of the deeds data and the financial data.
- Debt collection should be enhanced:
  - Ward Councillors should emphasize the importance of paying municipal accounts at every interaction with their constituency.
  - Ward Committee members must be encouraged to go house to house to emphasize the importance of paying municipal accounts to the residents of the municipal area.
  - Masakhane officials should provide better reports and statistics regarding the number of homes they visited and the results of each visit.
  - The agreement with the various law firms in the town must be renegotiated to ensure maximum cash flow to the municipality.
  - The political office bearers must be capacitated to handle the possible pressure from communities when electricity have been disconnected or blocked or when the lawyers start taking action.
- Rental of all properties must be re-evaluated to ensure that they are market related, including the usage of sport facilities by the sport clubs.

#### COST SAVING MEASUREMENTS

- All S&T payments will be done via ACB transfers, no cheques will be made out to any staff member for any payment to decrease banking fees.
- Any hotel costs over the suggested tariff in the Travelling and Subsistence policy must be motivated in writing and approved by the municipal manager or delegated authority.
- The indigent members of the public should be encouraged to report all water leaks, even on their side of the meter. Early action preventing water losses will result in a slowdown of bad debts.
- The monitoring of overtime against the vehicle reports must continue to ensure that only overtime actually worked is paid for.
- No overtime payments must be made to staff earning over the baseline salary as per legislation.
- Overtime payments to all staff members must only be done in exceptional circumstances; all staff should be encouraged to make use of the option to take the time off.

- Vehicle reports should be scrutinised by the respective managers to ensure that abuse of vehicles are not taking place, municipal vehicles should not be seen at shops, doctors' offices or carting children to and from school. Any such action must be met with immediate disciplinary action.
- Trips to the DMA should be co-ordinated to ensure efficiency.
- An analysis should be done regarding all printing costs of the municipality, including the costs of replacing ink cartridges and logging tickets with MNS. The costs should be compared to the costs associated with the leasing of printers and copiers with full service and maintenance contracts included.
- Year tenders must be encouraged for all items bought on a regular basis and the contracts must stipulate that no increases in the prices may take place during the contract period. Strict service level agreements must also be entered into whereby non-performance or sub-standard performance will result in non-payment.
- The cost of printing the monthly bills via CAB Holdings should be investigated with consideration being given to obtaining the required equipment to do the printing in house. Printing and distributing of all PR communications can then also be done in house and distributed with the monthly accounts.
- The detailed summaries of telephone expenditure per staff member currently being provided to the Directors should also be provided to the Municipal Manager on a monthly basis to ensure that a fair monitoring regarding telephone usage is implemented in all Departments.
- The telephone system should be investigated to determine whether monthly 'budgets' cannot be placed on the various officials relating to their job requirements.
- An investigation should be done to ensure that all the indoor lights and air conditioners are automatically switched off by a timing device. Should an official still be working, they should then be able to just switch on their light again.

## Section 4 – Budget Tables

The following budget tables can be found in Annexure B:

Table A1 - Budget Summary

Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

Table A4 - Budgeted Financial Performance (revenue and expenditure)

Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding

Table A6 - Budgeted Financial Position

Table A7 - Budgeted Cash Flows

Table A8 - Cash backed reserves/accumulated surplus reconciliation

Table A9 - Asset Management

Table A10 - Basic service delivery measurement

Supporting Table SA1 -SA37

## PART 2 - SUPPORTING DOCUMENTATION

### Section 5 - Overview of annual budget process

#### Budget process overview

##### Political overview of the budget process

Section 53 of the MFMA stipulates that the Mayor should exercise general political guidance over the budgeting process and must direct the drafting of the budget.

##### Schedule of Key Deadlines in respect of the budget process [MFMA section 21(1)(b)]

The Act provides that the formal budget process must commence with the tabling by the Mayor in Council of a schedule setting out the key budget deadlines. This was compiled for tabling in Council at the end of August 2009.

##### Process followed to integrate the revision of the IDP and drafting of the budget

The budgeting process was integrated with the IDP during the IDP revision mechanism. The outcome of the consultation upon the IDP revision is taken into consideration in the budgeting process.

##### Process for tabling of the budget before Council for consultation

A statutory period of consultation follows the tabling of the budget before Council on 31 March 2013. Meetings with the local community shall be advertised in the local press after tabling of the draft budget.

The Executive Mayor shall consider the outcomes of these consultation meetings and a report in which the reactions are set out shall be tabled at the same meeting where the budget is to be tabled for final approval.

##### Process for approval of the budget

The budget must be approved by Council by 31 May.

##### Process and media used to provide information on the budget to the community

All budget documentation, the MTREF, as well as tariffs and policy, shall be available at Council libraries and offices for perusal. It shall also be available on Council's website.

Advertisements informing the public about the availability of these documents and the schedules for the public hearings on the IDP and the Budget shall be published in all local papers and be put up at municipal offices and libraries.

## **Budget process 2013/2014**

The budget process in Matzikama complies with the requirements of the MFMA.

A schedule of key deadlines was compiled for tabling before Council by the Mayor before the end of August 2012; however with all the changes in the Council since the approval of the process plan, it was not always possible to strictly comply with the dates that were proposed.

The proposed budget must be tabled before Council by the end of March 2013. This is followed by a period of consultation. After the consultation process, the Mayor needs to consider any representations and decide whether any amendments need to be made to the budget.

The final budget must be agreed upon by Council before the end of May 2013.

The Municipality's budget was once again drafted on a 3-year basis. It takes the National and Provincial 3-year allocations to the Municipality into account. It is necessary to plan and budget on a 3-year basis in order to take account of resource restrictions as well as capacity restrictions in respect of service delivery. The MFMA requires that municipalities draft 3-year budgets to ensure more thorough financial planning and to make provision for seamless service delivery.

As was the case last year, however, both capital and operating revenue and expenditure figures in the outer years in the current uncertain economic climate are indicators of need or desire and in some cases hope, rather than actual figures.

The municipality shall set out measurable performance objectives to link the financial inputs of the budget with service delivery on the ground. This shall be done in the form of quarterly service targets and monthly financial targets contained in the Service Delivery and Budget Implementation Plan (SDBIP). This must be agreed upon by the Mayor within 28 days after agreement on the final budget and forms the basis for the Municipality's monitoring during the year.



## Section 6 - Overview of alignment of annual budget with IDP

See supporting table SA4 - 6 (Annexure B)

## Section 7 - Measurable performance objectives and indicators

See supporting table SA7 (Annexure B)

## Section 8 - Overview of budget-related policy

*The complete policies are included in this budget documentation - please note that most of the policies are in Afrikaans as the majority of the community speaks only Afrikaans:*

- Credit control and Debt Collection policy - Klantesorg en bestuursbeleid asook munisipale kredietbeheer en skuldinvorderingsbeleid
- Municipal property rates policy - Eiendomsbelastingbeleid
- Tariff policy on rates - Eiendomsbelastingbeleid
- Funding and reserve policy
- Supply chain management policy
- Policy relating to infrastructure investments and capital projects - Batebestuursbeleid
- Cash management and investment policy - Kontant Bestuurs en Beleggings Beleid
- Borrowing policy - Ingesluit in Kontant Bestuurs en Beleggings Beleid
- Policy relating to disposal and management of assets - addressed partly by the Supply Chain Management Policy and the Batebestuursbeleid
- Indigent Policy - included in the Credit Control and Debt Collection policy
- Tariff policy - including electricity, water, sanitation and refuse removal/Solid waste
- Policy relating to long term financial planning - included in the Cash Management and Investment Policy

## Section 9 - Overview of budget assumptions

### Budget assumptions

Budgets are drafted in uncertain conditions. In order to draft meaningful budgets, assumptions must be made about internal and external factors that may affect the budget. This Section offers a detailed summary of the assumptions used in drafting the budget.

#### External Factors:

There is no real growth in the municipal area, and the only growth in the number of households relate to the building of RDP housing and the servicing of erven for those on the housing backlog listing.

Job opportunities are limited, and the National budget has identified job creation as a priority and suggested that municipal capital and maintenance projects should assist them in this by implementing labour-intensive projects within their financial means.

The inflationary indexes made available by National Treasury could not be used in all instances as the guiding factor for increases in the tariffs. The impact of increases in petroleum, water costs, personnel costs and electricity costs to the municipality should not be underestimated and it cannot be controlled by the municipality.

#### Funding compliance

The budget will not be fully cash-backed if the current debtors' collection rate deteriorates and the worst case scenario was used in the preparation of the budget. The budget is still considered credible as various revenue enhancing strategies are currently being investigated and the municipality expects that a substantial improvement in water and electricity losses will be showing results during the 2013/2014 financial year.

## Section 10 - Overview of budget funding

### Funding of the Budget

Section 18(1) of the MFMA determines that an annual budget can only be funded from:

- Realistically expected revenue to be collected;
- Cash-backed accumulated funds of preceding years' surpluses not earmarked for other purposes; and
- Borrowed funds, but only for the capital budget referred to in Section 17.

Full achievement of this requirement effectively entails that a Council 'balances' its budget by ensuring that the budgeted outflow balances with a combination of planned inflow.

### A Credible Budget

A credible budget, among other things, is a budget, which:

- Only funds activities which are in line with the revised IDP and vice versa and which ensures that the IDP is realistically achievable while taking account of the financial restrictions of the municipality;
- Is achievable in respect of agreed service delivery and performance targets;
- Contains revenue and expenditure projections that are in line with current and previous performance and that are supported by documented evidence of future assumptions;
- Does not compromise the financial viability of the municipality (ensures that the financial position is contained within generally accepted prudent limits and that obligations can be met in the short, medium and long term); and
- Provides managers with suitable levels of delegation to enable them to fulfil their financial managerial responsibilities.

A budget sets out certain service delivery levels and accompanying financial implications. Consequently the community must realistically expect to receive these promised service levels and to understand the accompanying financial implications. High under spending due to under collection of revenue or poor planning is a clear example of a budget that is not credible and realistic.

Furthermore, budgets tabled as early as 90 days before the start of the budget year, must remain credible and fairly close to the final approved budget.

### Selling of assets

The Municipality is revising its land and asset ownership as part of its longer term financial strategy. The sale of land is therefore being investigated in order to improve the cash status of the municipality.

### **Taking up Loans**

The MFMA stipulates the conditions within which municipalities may incur short or long term debt.

The Act stipulates that short term debt may be used to meet immediate cash flow needs, but that it must be fully repaid within the financial year in which it was incurred. Long term debt can only be incurred for capital expenditure or refinancing of existing long term debt. Proposals to incur long term debt must follow a public consultation process; indications are that a long term loan will have to be taken up in 2013/2014 financial year in order to finance capital acquisitions.

## **Section 11 - Expenditure on grant allocations and grant programs**

See Supporting table SA18 (Annexure B)

## **Section 12 - Grants and allocations made by the Municipality**

Any allocations made to an external body must comply with the requirements of Section 67 of the MFMA. This provides that before any funds may be transferred to an external organisation, the Municipal Manager as accounting officer must be satisfied that the organisation or body has the capacity to fulfil the agreement and has sufficient financial management and other systems in place.

National Treasury further indicated in MFMA circular 51 that no discretionary funds may be appropriated in the budget seeing as such funds are not transparent during the consultation process.

## **Section 13 - Councillor and board member allowances and employee benefits**

See Supporting Table SA22 and SA23 (Annexure B)

## **Section 14- Monthly targets for revenue, expenditure and cash flow**

See Supporting Table SA25-SA30 (Annexure B)

## **Section 15 - Service Delivery and Budget Implementation plan**

To be submitted as per the requirements of the MFMA Section 69(3) 'The accounting officer must no later than 14 days after the annual budget is submitted to the Mayor submit the service delivery and budget implementation plan for the year.'

## **Section 16 - Contracts having future budgetary implications**

See supporting table SA33 (Annexure B)

## **Section 17 - Capital expenditure details**

See supporting table SA36 for detail capital budget.

## Section 18 - Legislative compliance status

### Municipal Financial Management Act -No 56 of 2003

The MFMA took effect on 1 July 2004. The act modernises budget and financial management practices within the overall aim of maximising the capacity of municipalities to deliver services.

The MFMA covers all aspects of municipal finances, including budget, supply chain management and financial reporting.

The various sections of the Act are being phased in according to the designated financial management capacity of municipalities. Matzikama municipality has been designated as a medium-capacity municipality.

The MFMA forms the basis of the municipal management reforms implemented by municipalities.

### The MFMA and the budget

The following explains the budget process in terms of the requirements of the MFMA. It is based on National Treasury's manual on the MFMA.

#### The budget drafting process

*The Mayor must direct the budget drafting process by means of a co-ordinated cycle of events commencing at least ten months before the start of each financial year.*

#### Overview

The MFMA requires a Council to adopt a three-year capital and operating budget taking into account and aligning with the municipality's current and future development priorities and other finance-related policy (for example relating to the provision of free basic services).

These budgets must clearly set out the revenue per source and expenditure per vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and any details on loans, municipal entities, service delivery agreements, grant allocations and details of employment costs.

The budget may only be funded from reasonable estimates of revenue and cash-backed surplus funds of the previous year and loans (the latter for capital items only).

#### Budget drafting time schedule

The first step in the budget drafting process is to develop a time schedule of all key deadlines relating to the budget and to revise the Municipality's IDP and budget-related policy.

The budget drafting time schedule is compiled by senior management and tabled by the mayor for adoption by Council by 31 August (ten months before the start of the next budget year).

#### Drafting of the budget and revision of the IDP and policy

The Mayor must co-ordinate the budget drafting process and the revision of Council's IDP and budget-related policy with the assistance of the municipal manager.

The Mayor must ensure that the IDP overview constitutes an integral part of the budgeting process and that any changes to strategic priorities as contained in the IDP document are based on realistic projections of revenue and expenditure. In developing the budget, management must take into account national and provincial budgets, the national fiscal and macro-economic policy and other applicable agreements or Acts of Parliament. The Mayor must consult the relevant District Council and all other local municipalities in that district as well as the applicable provincial treasury and the national treasury in drafting the budget, and must upon request provide certain information to National Treasury and other government departments.

The drafting process should ideally take place between August and November in order that draft consolidated three-year budget proposals, IDP amendments and policy could be made available during December and January. This allows time in January, February and March for preliminary consultation and discussion of the draft budget.

#### Tabling of the draft budget

By 31 March, the mayor must submit the initial draft budget to Council for review.

#### Publication of the draft budget

After submission to Council, the Municipal Manager must disclose the relevant budget documentation and submit it to the National Treasury and the relevant provincial treasury and any other state department as required. At this stage, the local community must be invited to make representations on the contents of the budget.

#### Opportunity to comment on draft budget

After submission of the draft budget, Council must consider the opinions of the local community, National Treasury and the relevant provincial treasury and other municipalities and state departments who submitted representations on the budget.

#### Opportunity for revision of draft budget

After considering all opinions and representations, Council must allow the Mayor the opportunity to react to the representations received and, if necessary, to revise the budget and submit amendments for Council's consideration.



After tabling of the draft budget at the end of March, the months of April and May must be used to accommodate public and government comments and make any revisions that may be necessary. This could assume the form of public hearings, Council debates, formal or informal delegations to National Treasury, provincial treasury and other municipalities, or any other consulting forums designed to address the priorities of interested parties.

#### Adoption of the annual budget

Thereafter, Council must consider the approval of the budget by 31 May and formally adopt the budget by 30 June. This offers Council a 30-day window period to review the budget several times before final approval.

Should a Council fail to approve its budget during the first meeting, the budget, or an amended copy thereof, must be reconsidered within seven days and so on until it is eventually approved - before 1 July.

As soon as the budget is approved, the Municipal Manager must place the budget on the municipality's website within five days.

### **BUDGET IMPLEMENTATION**

#### Implementation management - the Service Delivery and Budget Implementation Plan (SDBIP)

The Municipal Manager must submit a draft SDBIP and draft annual performance agreement for all pertinent senior personnel to the Mayor for approval within fourteen days after approval of the budget (no later than 14 July).

A SDBIP is a detailed plan for implementation of the delivery of municipal services contemplated in the annual budget and should indicate monthly revenue and expenditure projections and quarterly service delivery targets and performance indicators.

The Mayor must approve the draft SDBIP within 28 days after approval of the annual budget (no later than 28 July).

This plan must then be monitored by the Mayor and it must be regularly reported on to Council.

#### Managing the implementation process

The municipal manager is responsible for implementing the budget and must take steps to ensure that all expenditure occurs according to the budget and that revenue and expenditure is properly monitored.

#### Deviation from budget estimates

In general, Council may only incur expenditure if it is in accordance with the budget, within the limits of the amounts appropriated for each budget vote - and in the case of capital expenditure, only if Council has approved the project.

Expenditure incurred outside these parameters may be regarded as unauthorised, or in some cases irregular and fruitless or wasteful. Unauthorised expenditure must be reported and could result in criminal prosecution.

#### Review of budget estimates - the adjustments budget

It may on occasion be necessary for Council to consider a revision of its original budget due to material and considerable changes in revenue collections, expenditure patterns, or forecasts thereof for the remaining part of the financial year.

In such cases, a municipality may adopt an adjustments budget drafted by the municipal manager, submitted to the Mayor for consideration and tabled before Council for adoption.

The adjustments budget must contain certain prescribed information, it may not result in further increases in rates and tariffs and it must contain relevant justifications and supporting material when it is approved by Council.

#### **Requirements of the MFMA in respect of the contents of annual budgets and supporting documentation**

Section 17 of the MFMA stipulates that an annual budget must be in the prescribed format and sets out what is to be included in that format. In MFMA circular 48, National Treasury offers detailed guidance on the contents of budget documentation and the supporting schedules. Matzikama Municipality has done its utmost to comply with the circular.

The table below shows how Matzikama Municipality complies with the disclosure requirements of Section 17 of the MFMA.

Requirement	Disclosure in budget documentation
Schedule of reasonably expected revenue for the budget year from each source of revenue	SECTION 4 (annexure B)
Schedule indicating expenditure appropriations for the budget year under the various votes of the Municipality	SECTION 4 (annexure B)
Schedule setting out the indicative revenue per revenue source and projected expenditure per vote for the two financial years following on the Budget year	SECTION 4(annexure B)
Draft resolutions - (i) approval of the budget of the Municipality (ii) instituting any municipal rates and fixing any municipal tariffs as may be required for the budget year and (iii) Approval of any other matters that may be prescribed.	Section 2
Measurable performance objectives for revenue for each source and for each budget vote, taking account of the Municipality's Integrated	Section 7

Development Plan.	
Proposed amendment to the Municipality's integrated development plan after the annual review of the IDP in terms of Section 34 of the Municipal Systems Act	
Any prescribed information on municipal entities under the exclusive or shared control of the Municipality	N.A.
Details of all prescribed new municipal entities that the Municipality wishes to establish or which the Municipality wishes to participate in	N.A.
Details of any proposed service delivery agreements, including material amendments to existing service delivery agreements	
Details of any proposed grants or allocations by the municipality to - (i) other municipalities (ii) any municipal entities and other external mechanisms that assist the municipality in performing its functions or powers (iii) any other state organs (iv) any organisations or bodies referred to in Section 67 (1) (bodies outside die Government)	Section 12
The proposed cost to the municipality for the budget year of the salaries, allowances and benefits of - (i) each political office-bearer of the Municipality (ii) councillors of the municipality (iii) the municipal manager, the chief financial officer, any senior manager of the municipality and any other official of the municipality with a remuneration package greater or equal to that of a senior manager	Section 13
The proposed cost in the budget year for a municipal entity under the exclusive or shared control of the Municipality for the salaries, allowances and benefits of - (i) each member of the entity's board and	N.A.

(ii) the chief executive officer and each senior manager of the entity	

## Other Legislations

In addition to the MFMA, the following legislation also impacts on the Municipal budget;

### The Distribution of Revenue Act, 2011 and Provincial Budget announcements

Three-year national allocation to local government is published annually according to municipality in the Distribution of Revenue Act. The Act imposes duties on municipalities additional to the requirements of the MFMA, specifically regarding reporting obligations.

Allocations to the Municipality from Provincial Government are announced in the Provincial budget and published.

Section 18 of the MFMA provides that annual budgets may only be funded from reasonably expected revenue to be collected. The provision in the budget for allocation of National and Provincial government must include the allocations announced in the DORA or the applicable Provincial Gazette.

### The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act no 44 of 2003

One of the key objectives of the Municipal Systems Act is to ensure financially and economically viable communities. The requirements of the Act are closely linked with that of the MFMA. In particular, the following requirements must be considered in the budget process;

- Chapters 4 and 5 relate to community participation and the requirements for the Integrated Development Plan process.
- Performance management that links with the requirement for the budget to contain measurable performance indicators and quarterly performance targets in the Service Delivery and Budget Implementation Plan.
- Chapter 8 relates to the requirements of producing a tariff policy.

## Section 19 - Quality Certification by Municipal Manager

I, D O'Neill, Municipal Manager of Matzikama Municipality, hereby declares that the annual budget and supporting documentation have been drafted in accordance with the Municipal Financial Management Act and the regulations issued under this act, and that the annual budget and supporting documentation are aligned with the Integrated Development Plan of the Municipality.

D O'Neill  
Municipal Manager

Signature .....

Date .....